SOLANO COUNTY
CIVIL GRAND JURY

CITY OF VACAVILLE UNFUNDED LIABILITIES: PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

City of Vacaville Unfunded Liabilities: Pensions and Other Post-Employment Benefits

Solano County Civil Grand Jury 2020-2021

I. SUMMARY

Responding to a citizen complaint, the 2018-2019 Solano County Civil Grand Jury issued a report on June 25, 2019 entitled *Survival of "OPEB" Other Post-Employment Benefits, City of Vacaville.* The report concluded that Vacaville's existing employee benefit package "indicates a benefit cost that is not sustainable" and that "failure to address this problem could result in loss of employees and corresponding loss of services to citizens." The report included five findings and nine recommendations to address this issue. The current Civil Grand Jury followed up to review the city's unfunded liabilities and progress made to reduce them since the initial report was issued.

II. INTRODUCTION

The City of Vacaville provides lifetime healthcare benefits to current and retired employees, their spouses, and children up to the age of 26. According to the City's Comprehensive Annual Financial Report (CAFR) dated June 30, 2019, the city had unfunded pension and healthcare liabilities exceeding $228 million. The portion of the debt obligation related to retiree healthcare, also referred to as Other Post-Employment Benefits (OPEB), was over $80 million. The California Employees Retirement System (CalPERS) rates for employee pensions and healthcare costs continue to escalate and threaten Vacaville's financial stability. While the City Council has taken steps to reduce the amount of unfunded liabilities, additional actions are required to maintain city services and fully fund future employee benefit obligations.

III. METHODOLOGY

Interviewed

- Vacaville citizen
- Vacaville City Council member
- Vacaville OPEB Advisory Committee member

Attended

- Vacaville City Council meeting, October 13, 2020
- Vacaville City Council Special Study Session – Unfunded Liabilities, March 2, 2021
- Webinar: *Other Post-Employment Benefit Liabilities in Contra Costa County*, Marc Joffe, Senior Policy Analyst, Reason Foundation, April 8, 2021

Reviewed

- *Survival of "OPEB" City of* Vacaville, Solano County Civil Grand Jury report, June 25, 2019 [OPEBVV-2018_19_06042019-Final-Rpt.pdf (ca.gov)]
- City of Vacaville's response to Civil Grand Jury report, August 6, 2019 https://vacaville.granicus.com/MetaViewer.php?view_id=5&clip_id=1631&meta_id=82748

- *Senator John Moorlach Ranks California's 482 Cities for Financial Soundness*, March 2018; March 2019; January 2020
- City of Vacaville OPEB Advisory Committee minutes, report, and recommendations
- City of Vacaville Actuarial Valuation of OPEB, 2017 and 2019
- Memorandums of Understanding (MOU's) between the City of Vacaville and labor groups:
    - Vacaville Police Officers Association (VPOA)
    - Vacaville Police Managers Association (VPMA)
    - Fire Managers Group (FMG)
    - Vacaville Firefighters Association (VFA)
    - Vacaville City Employees Association (VCEA)
    - Vacaville Managers Organization (VMO)
    - Stationary Engineers, Local 39
    - Department Heads, including City Manager and City Attorney
    - Administrative Managers Group (AMG)
- Vacaville City Council agendas, minutes, resolutions, and supporting documents
- Transparent California web site (www.transparentcalifornia.com)
- Median home costs, https://www.bestplaces.net; www.areavibes.com
- *Solano County Total Compensation Study*, Solano County Human Resources Department, 2015
- City of Vacaville response to Civil Grand Jury's request for information, September 22, 2020
- *Fiscal Health of California Cities*, State of California Auditor's Office, January 2020
- City of Vacaville website (www.ci.vacaville.ca.us)
- *Comprehensive Annual Financial Reports* (CAFRs), Fiscal Year End (FYE) 2019 and 2020
- City of Vacaville annual budgets FYE 2019 and 2020
- *City of Vacaville OPEB Advisory Committee Report*, October 13, 2020
- *Understanding Public Pension Plan's Unfunded Liability* (Florida Public Pension Trustees Association (FPPTA), February 2011
- *Generous To A Fault*, David Crane, City Journal, February 8, 2021
- City of Beverly Hills, Employee Compensation Present and Future Costs, http://www.beverlyhills.org/departments/finance/employeecompensationpresentandfuturecosts/#
- *Give Employees Cash to Purchase Their Own Insurance*, Regina Herzlinger and Barak Richman, Harvard Business School Review, December 09, 2020
- League of California Cities, *Reducing Unfunded Liabilities-A Three-Pronged Approach,* 2015
- The City Budget, Employee Compensation & Unfunded Liabilities, https://www.cityofberkeley.info/uploadedFiles/Council_5/Level_3_-_General/Budget%20FAQ.1.12.pdf
- City of Vacaville, Human Resources, 2020 Health Premium and Employee/Retiree Share

IV. STATEMENT OF FACTS

The 2018-2019 Solano County Civil Grand Jury report recommended the establishment of a committee comprised of Vacaville citizens to study the OPEB liability issue and make recommendations to the city council. The Vacaville City Council established an OPEB Advisory Committee, composed of citizens and city staff for a term of 120 days. The committee's report was presented to the city council on October 13, 2020 and included ten recommendations in two specific areas to address the OPEB risk.[1] The council accepted the report, took no action to

[1] City of Vacaville's OPEB Advisory Committee Report, Appendix A

address the recommendations, and thanked the committee for its service. One of the OPEB Advisory Committee's recommendations was to transition from a retiree health defined *benefit* plan to a defined *contribution* plan.[2]

In a report titled *Senator John Moorlach Ranks California's 482 Cities for Financial Soundness*, dated January 16, 2020, the city of Vacaville was ranked 431 out of 482, placing the city in the bottom 10% of all California cities for financial health, based on each city's Unrestricted Net Position (UNP). When a municipality's assets exceed liabilities, the city has a *positive* unrestricted net position; when liabilities exceed assets, the city has a *negative* unrestricted net position. The City of Vacaville's median compensation and employee benefits are higher than other California cities of comparable population and median home values.

Analysis of the 2018 Unrestricted Net Position (UNP)
Total Full-time Employee Compensation Costs with Benefits
And Median Home Values for the City of Vacaville
And 12 Financially Sound California Cities
With population between 70,000 and 135,000

City	Population	UNP (thousands)	Median Pay & Benefits	Median Home Value (thousands)
Carlsbad	114,622	$262,023	$132,246	$674
Tustin	82,344	$151,119	$121,159	$543
Thousand Oaks	130,196	$104,018	$109,653	$637
Lake Forest	84,845	$59,234	$109,017	$550
San Marcos	95,768	$48,322	$124,156	$418
Rancho Cordova	74,210	$45,023	$106,197	$414
Vista	103,381	$38,299	$119,677	$392
Walnut Creek	70,677	$6,045	$136,707	$647
Temecula	113,181	$31,700	$117,064	$360
Chino Hills	83,159	$26,537	$122,770	$537
Mission Viejo	95,987	$17,421	$106,647	$608
Citrus Heights	87,731	$1,755	$120,601	$318
12 City Average	94,675	$65,958	$118,825	$508
Vacaville	**98,977**	**-$166,324**	**$171,346**	**462**
Variance	5%	-$232,282	44%	9%

Sources: *California Sen. John M.W. Moorlach's 2019 Financial Soundness Rankings for California's 482 Cities; www.transparentCalifornia.com; www.areavibes.com*

The City's OPEB Advisory Committee confirmed the findings of the previous Civil Grand Jury report, concluding "the City of Vacaville is facing significant fiscal challenges from the current

[2] With defined benefit healthcare, the employer provides specific health benefits. With defined contribution healthcare, the employer provides a fixed dollar amount for each employee to be used to pay for qualified healthcare costs.

OPEB benefit level. Among the most significant challenges are the unfunded CalPERS Pension Liability and the unsustainable costs of Other Post-Employment Benefits."

The June 30, 2019 Comprehensive Annual Financial Report (CAFR) stated that the city's net pension liability exceeded $228 million and net OPEB liability was over $80 million.

CITY OF VACAVILLE
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2019

Schedule of Changes in Net OPEB Liability and Related Ratios During the Measurement Period
OPEB

Measurement Period	2017	2018
TOTAL OPEB LIABILITY		
Service Cost	$ 3,562,835	$ 3,803,326
Interest	6,885,327	7,227,589
Benefit Payments, Including Refunds of Employee Contributions	(5,545,872)	(5,692,757)
Net Change in Total OPEB Liability	4,902,290	5,338,158
Total OPEB Liability - Beginning	101,169,669	106,071,959
Total OPEB Liability - Ending (a)	$ 106,071,959	$ 111,410,117
PLAN FIDUCIARY NET POSITION		
Contributions - Employer	$ 8,522,372	$ 11,562,757
Net Investment Income	2,093,866	1,938,189
Benefit Payments, Including Refunds of Employee Contributions	(5,545,872)	(5,692,757)
Administrative Expense	(17,401)	(13,404)
Net Change in Fiduciary Net Position	5,052,965	7,794,785
Plan Fiduciary Net Position - Beginning	18,221,645	23,274,610
Plan Fiduciary Net Position - Ending (b)	$ 23,274,610	$ 31,069,395
Plan Net OPEB Liability/(Asset) - Ending (a) - (b)	$ 82,797,349	$ 80,340,722
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	21.94%	27.89%
Covered Employee Payroll	$ 44,694,355	$ 49,289,087
Plan Net OPEB Liability/(Asset) as a Percentage of Covered Employee Payroll	185.25%	163.00%

Fiscal Year 2018 was the first year of implementation.

The California State Auditor's *Fiscal Health of California Cities* report, dated January 2020, assessed Vacaville as being "high-risk" for pension obligations, funding, future pension costs, and OPEB funding. The following chart highlights the State Auditor's assessment of cities in Solano County.

City	Overall	General Fund Reserve	Debt Burden	Liquidity	Revenue Trends	Pension Obligations	Pension Funding	Pension Costs	Future Pension Costs	OPEB Obligations	OPEB Funding
Vallejo	M	M	M	L	M	H	H	H	H	L	H
Fairfield	M	M	M	L	M	M	M	M	H	L	H
Vacaville	M	M	L	L	L	H	H	H	H	L	H
Suisun City	L	L	L	L	L	M	M	M	H	L	H
Benicia	L	L	L	L	L	M	M	M	H	L	H
Dixon	L	L	L	L	M	L	M	L	M	L	H
Rio Vista	L	L	L	L	L	L	M	L	H	L	H
High Risk (H)											
Low Risk (L)											
Moderate Risk (M)											

A. Pension Plans

The City of Vacaville funds two CalPERS pension plans, safety (police and fire) and miscellaneous (other staff), which have unfunded liabilities totaling $209 million. The plan for safety employees alone as of June 30, 2019 had a $122 million unfunded liability.

CalPERS Actuarial Valuation - June 30, 2019
Safety Plan of the City of Vacaville
CalPERS ID: 5009967201

Development of Accrued and Unfunded Liabilities

	June 30, 2018	June 30, 2019
1. Present Value of Projected Benefits		
a) Active Members	$179,338,813	$184,508,737
b) Transferred Members	8,318,810	8,235,634
c) Terminated Members	2,315,780	2,648,727
d) Members and Beneficiaries Receiving Payments	203,320,785	209,799,322
e) Total	$393,294,188	$405,192,420
2. Present Value of Future Employer Normal Costs	$43,205,266	$40,242,153
3. Present Value of Future Employee Contributions	$21,637,915	$21,913,372
4. Entry Age Normal Accrued Liability		
a) Active Members [(1a) - (2) - (3)]	$114,495,632	$122,353,212
b) Transferred Members (1b)	8,318,810	8,235,634
c) Terminated Members (1c)	2,315,780	2,648,727
d) Members and Beneficiaries Receiving Payments (1d)	203,320,785	209,799,322
e) Total	$328,451,007	$343,036,895
5. Market Value of Assets (MVA)	$207,377,917	$220,929,624
6. Unfunded Accrued Liability (UAL) [(4e) - (5)]	$121,073,090	$122,107,271
7. Funded Ratio [(5) / (4e)]	63.1%	64.4%

The unfunded portion of the CalPERS safety plan liability increased 67% from $73 million in 2011 to $122 million in 2019.

Funding History

The table below shows the recent history of the actuarial accrued liability, the market value of assets, the funded ratio and the annual covered payroll.

Valuation Date	Accrued Liability	Market Value of Assets (MVA)	Unfunded Liability	Funded Ratio	Annual Covered Payroll
06/30/11	$199,208,500	$125,999,266	$73,209,234	63.2%	$19,426,826
06/30/12	212,451,292	127,491,502	84,959,790	60.0%	18,276,631
06/30/13	226,007,308	144,155,092	81,852,216	63.8%	18,491,131
06/30/14	251,777,427	169,390,901	82,386,526	67.3%	19,644,664
06/30/15	264,013,664	172,685,900	91,327,764	65.4%	19,449,198
06/30/16	280,588,051	172,882,106	107,705,945	61.6%	21,332,363
06/30/17	302,531,217	191,772,171	110,759,046	63.4%	20,707,264
06/30/18	328,451,007	207,377,917	121,073,090	63.1%	22,974,490
06/30/19	343,036,895	220,929,624	122,107,271	64.4%	23,266,541

Source: CalPERS Actuarial Valuation - June 30, 2019 Safety Plan of the City of Vacaville CalPERS ID: 5009967201 Page 21 Employer Contribution History

The city's CalPERS pension plan for miscellaneous employees had an unfunded liability of $87 million as of June 30, 2019.

Development of Accrued and Unfunded Liabilities

	June 30, 2018	June 30, 2019
1. Present Value of Projected Benefits		
a) Active Members	$110,731,991	$118,662,743
b) Transferred Members	11,419,496	11,102,177
c) Terminated Members	4,064,069	4,047,102
d) Members and Beneficiaries Receiving Payments	164,437,408	172,460,922
e) Total	$290,652,964	$306,272,944
2. Present Value of Future Employer Normal Costs	$20,652,568	$21,787,242
3. Present Value of Future Employee Contributions	$15,569,183	$17,396,318
4. Entry Age Normal Accrued Liability		
a) Active Members [(1a) - (2) - (3)]	$74,510,240	$79,479,183
b) Transferred Members (1b)	11,419,496	11,102,177
c) Terminated Members (1c)	4,064,069	4,047,102
d) Members and Beneficiaries Receiving Payments (1d)	164,437,408	172,460,922
e) Total	$254,431,213	$267,089,384
5. Market Value of Assets (MVA)	$171,941,274	$179,340,501
6. Unfunded Accrued Liability (UAL) [(4e) - (5)]	$82,489,939	$87,748,883
7. Funded Ratio [(5) / (4e)]	67.6%	67.1%

The unfunded portion of the CalPERS miscellaneous pension plan liability increased 64% from $53 million in 2011 to $87 million in 2019.

Funding History

The table below shows the recent history of the actuarial accrued liability, the market value of assets, the funded ratio and the annual covered payroll.

Valuation Date	Accrued Liability	Market Value of Assets (MVA)	Unfunded Liability	Funded Ratio	Annual Covered Payroll
06/30/11	$172,996,776	$119,910,447	$53,086,329	69.3%	$27,312,768
06/30/12	181,520,801	118,578,516	62,942,285	65.3%	25,199,192
06/30/13	189,702,132	131,765,588	57,936,544	69.5%	23,991,580
06/30/14	204,864,645	151,463,567	53,401,078	73.9%	23,855,406
06/30/15	212,155,619	151,279,110	60,876,509	71.3%	24,270,223
06/30/16	223,081,499	148,756,657	74,324,842	66.7%	24,362,813
06/30/17	235,504,197	162,043,263	73,460,934	68.8%	25,953,575
06/30/18	254,431,213	171,941,274	82,489,939	67.6%	26,369,384
06/30/19	267,089,384	179,340,501	87,748,883	67.1%	28,619,329

Source: CalPERS Actuarial Valuation - June 30, 2019 Miscellaneous Plan of the City of Vacaville CalPERS ID: 5009967201 Page 21 Employer Contribution History

As the chart below indicates, if the City of Vacaville increased its current CalPERS Safety Plan payment by $2 million annually it would save $26 million in interest and retire the unfunded liability within 15 years. If annual payments were increased by $5 million the city would save $52 million in interest and retire the unfunded liability in 10 years.

CalPERS Actuarial Valuation - June 30, 2019
Safety Plan of the City of Vacaville
CalPERS ID: 5009967201

Amortization Schedule and Alternatives

	Current Amortization Schedule		Alternative Schedules: 15 Year Amortization		Alternative Schedules: 10 Year Amortization	
Date	**Balance**	**Payment**	**Balance**	**Payment**	**Balance**	**Payment**
6/30/2021	121,268,886	10,107,502	121,268,886	12,871,779	121,268,886	16,691,635
6/30/2022	119,302,426	10,989,930	116,443,036	12,871,779	112,491,747	16,691,635
6/30/2023	116,285,523	11,613,592	111,279,377	12,871,779	103,100,208	16,691,635
6/30/2024	112,412,316	12,194,313	105,754,262	12,871,779	93,051,261	16,691,635
6/30/2025	107,667,286	12,556,368	99,842,389	12,871,779	82,298,888	16,691,635
6/30/2026	102,215,589	11,862,048	93,516,685	12,871,779	70,793,849	16,691,635
6/30/2027	97,100,483	12,188,665	86,748,181	12,871,779	58,483,457	16,691,634
6/30/2028	91,289,465	12,505,582	79,505,882	12,871,779	45,311,339	16,691,635
6/30/2029	84,743,850	11,673,652	71,756,622	12,871,779	31,217,171	16,691,634
6/30/2030	78,600,603	11,995,087	63,464,914	12,871,780	16,136,413	16,691,635
6/30/2031	71,694,832	10,578,064	54,592,785	12,871,779		
6/30/2032	65,771,438	10,478,098	45,099,608	12,871,780		
6/30/2033	59,536,809	9,717,943	34,941,908	12,871,779		
6/30/2034	53,652,068	9,409,885	24,073,170	12,871,780		
6/30/2035	47,674,054	8,877,927	12,443,619	12,871,780		
6/30/2036	41,827,840	8,370,842				
6/30/2037	36,096,923	7,823,375				
6/30/2038	30,531,146	7,239,458				
6/30/2039	25,179,774	6,803,749				
6/30/2040	19,904,507	6,567,191				
6/30/2041	14,504,669	5,635,230				
6/30/2042	9,690,867	4,950,866				
6/30/2043	5,248,012	4,863,800				
6/30/2044	584,220	604,322				
6/30/2045						
6/30/2046						
6/30/2047						
6/30/2048						
6/30/2049						
6/30/2050						
Total		**219,607,489**		**193,076,689**		**166,916,348**
Interest Paid		**98,338,603**		**71,807,803**		**45,647,462**
Estimated Savings				**26,530,800**		**52,691,141**

B. Health Care

The cost of CalPERS' Family Premium healthcare rates rose an average of 8.5% per year from 1975 to 2020, with the current premium at $2,115 per month. The City has three employee benefit tiers and contributes up to 85% toward all active employees' healthcare premiums and toward retiree healthcare premiums based on which tier they retire from.

The City currently has three compensation tiers for active and retired employees. Each tier is predicated on the date of hire and years of service. The following 2020 Kaiser Premium and Employee/Retiree Share chart highlights the current premium rates for each of the city's three employee and retiree tiers. While the city has moved to a defined contribution model for Tier 3 employees, the majority of the city's current employees and retirees are receiving defined benefits under Tier 1 and Tier 2.

2020 Kaiser Premium and Employee/Retiree Share

Active employees and Tier 1 Retirees:			
Kaiser	Total Premium	85% City pd	EE pd
Employee Only	768.49	653.22	115.27
Employee +1	1536.98	1306.43	230.55
Family	1998.07	1698.36	299.71

Tier 2 Retiree with 20 years (100% Vested):			
Kaiser	Total Premium	City pd	Retiree pd
Employee Only	768.49	767.00	1.49
Employee +1	1536.98	1461.00	75.98
Family	1998.07	1868.00	130.07

Tier 3 Retiree with 20 years:			
Kaiser	Total Premium	City pd	Retiree pd
Employee Only	768.49	339.00	429.49
Employee +1	1536.98	339.00	1197.98
Family	1998.07	339.00	1659.07
Plus RHS savings account funds			

The healthcare premium rate is set exclusively by CalPERS, resulting in the city having no ability to control rising healthcare costs. While the City of Vacaville provides defined *benefit* plans for Tier 1 and Tier 2 employees and retirees, the private sector has moved towards defined *contribution* plans (DCPs) because the costs of defined benefit plans (DBPs) are inherently unpredictable. In contrast, DCPs immediately become and remain 100 percent fully funded.

A simulation conducted by the Harvard Business School quantified the resulting economic benefits if businesses would move from a defined benefit plan to a defined contribution plan. It found that "workers, especially those earning less than $50,000 annually, could benefit substantially from trading in some health insurance for taxable take-home pay. Each person or head of household knows best what health care coverage they need. Our simulation indicates that nationwide annual after-tax household income would grow by $101 billion to $252 billion."

For example, at the March 3, 2021 city council meeting, an individual reported that his CalPERS rate for health insurance was $1,000 per month higher than if he acquired an identical family plan on his own. He opted to take the cash option from the county and purchased his own family insurance, resulting in savings for both his family and the county.

Several California cities, facing similar unfunded liability issues, have made changes that resulted in cost savings. The City of Huntington Beach developed a multi-pronged approach to reduce the City's retirement and OPEB unfunded liabilities over a ten-year period, saving taxpayers an estimated $73.3 million. The City of Berkeley eliminated pension spiking[3] by calculating retirement benefits based upon a three-year average instead of the single highest wage year. It also

[3] Pension spiking, sometimes referred to as "salary spiking", is the process whereby public sector employees are granted large raises, bonuses, incentives or otherwise artificially inflate their compensation in the time immediately preceding retirement in order to receive larger pensions than they otherwise would be entitled to receive.

capped the number of sick and vacation days an employee can accrue for retirement benefits, required employees to pay a greater portion of their healthcare benefits, and modified healthcare policies to include cash-in-lieu of benefit options.

Other northern California cities, including San Jose, Calistoga, San Francisco, Vallejo, and Oakland have implemented compensation and benefit changes to reduce unfunded liabilities. The City of Beverly Hills used a combined approached as follows:

- "The City reduced employee health benefits costs for all employees by introducing a 'cafeteria plan'. This plan provides the employee a fixed amount that can be used to purchase health, dental and vision care from a fixed group of providers. If an employee wishes additional coverage, he or she must cover the additional cost.
- The City reduced retiree medical costs through an Alternative Retiree Medical Plan which bought out employees from the existing defined benefit program. Eligible employees hired before Jan. 1, 2010 were offered the value of their current retiree benefit in exchange for giving up their defined benefits when they retired. Fifty eight percent of the eligible participants (178 employees) took advantage of this program.
- The City capped costs for retiree medical coverage for employees hired after Jan. 1, 2010 by offering defined contributions to a retirement health plan, rather than defined benefits. When the employee leaves the City, they take whatever has been contributed with them.
- The City negotiated a two-tiered benefit system for Police, Police Management and Fire bargaining units by increasing retirement age from 50 to 55. Savings from the two-tier PERS plan gradually increase over time as new employees replace existing employees.
- Fire safety employees, and Police and Police Management safety employees, began paying a portion of their PERS costs, and all non-safety employees began paying their portion of the PERS pension rate.
- In addition to the City's efforts to reduce employee costs, state requirements further reduced the City's long-term costs, or unfunded liabilities. These requirements include increasing the retirement age for new employees; calculating pension payments based on an average of three-year's salary, rather than the single highest year; and caps on pensionable salaries."

In an April 8, 2021 webinar, a senior policy analyst with the Reason Foundation suggested that cities with unfunded liabilities apply for federal funding through The American Rescue Plan Act of 2021. This is a $1.9 trillion economic stimulus package passed by Congress and signed by President Biden to accelerate recovery from the economic and health effects of the COVID-19 pandemic.

Current MOU's between the City of Vacaville and seven of the nine collective labor bargaining units will expire October 31, 2021; the remaining two MOU's terminate October 31, 2022.

V. FINDINGS AND RECOMMENDATIONS

FINDING 1 – The unfunded portion of the City of Vacaville's CalPERS pension plans liability increased from $126 million in 2011 to $209 million in 2019. This amount is categorized as high-risk by the California State Auditor. The unfunded OPEB liability as of June 30, 2019 exceeded $80 million.

RECOMMENDATION 1a – The City of Vacaville establish an annual contribution schedule to retire the unfunded liabilities over a 10- to 15-year period.

RECOMMENDATION 1b – The City of Vacaville apply for American Rescue Plan Act funds to make additional contributions towards reducing pension and OPEB liabilities.

FINDING 2 – The City of Vacaville's current employment benefits packages are unsustainable and offer benefits exceeding those provided by other California cities with similar population and home values.

RECOMMENDATION 2a – The City of Vacaville use an independent facilitator to negotiate all labor contracts.

RECOMMENDATION 2b – All labor negotiations should address unfunded pension and OPEB liabilities.

FINDING 3 – The City of Vacaville has no control over healthcare premium rates set by CalPERS, hindering the city's ability to contain healthcare costs.

RECOMMENDATION 3 – In future labor negotiations with Tier 1 and Tier 2 employees, the City of Vacaville convert to a defined contribution healthcare benefits model.

FINDING 4 – The Vacaville City Council dismissed the OPEB advisory committee, without taking any action, limiting the effectiveness of the oversight process.

RECOMMENDATION 4 – The Vacaville City Council re-establish the OPEB advisory committee and act on the recommendations made by the prior committee.

FINDING 5 – Unfunded pension and OPEB liabilities remain a concern for Vacaville citizens because they directly affect the quality of public services provided to residents as well as the future financial stability of the city.

RECOMMENDATION 5 – The Vacaville City Council take actions to ensure that issues affecting pensions and OPEB liabilities continue to be reviewed regularly and publicly.

REQUIRED RESPONSES

City of Vacaville Mayor and Council (all findings)

COURTESY COPIES

City Manager, Vacaville
Solano County Board of Supervisors

APPENDICES

Appendix A

**CITY OF VACAVILLE OTHER POST-EMPLOYMENT BENEFITS (OPEB)
ADVISORY GROUP REPORT SUBMISSION**

OPEB RECOMMENDATIONS

SUBCOMMITTEE RECOMMENDATIONS

Healthcare costs have been rising faster than the overall cost of living for several decades. For example, the cost of CalPERS Family Premium rose an average of over 8.5% per year from 1975 to 2020, with the current premium at $1,998 per month. This healthcare premium is set by CalPERS, resulting in the City having no control over these cost increases.

The City of Vacaville is facing significant fiscal challenges from the current OPEB benefit level. This high cost benefit level will frustrate the City's desire to provide facilities and services for its citizens. Among the most significant fiscal challenges are the unsustainable costs of Other Post-employment Benefits.

We are recommending the City of Vacaville provide an enhanced OPEB approach that would create a better, stronger, more prosperous City for the next generation. The choices and decisions we make, or perhaps choose not to make, will have a profound impact on the future that our children and grandchildren inherit. Therefore, we strongly recommend the City focus on the fiscal sustainability of OPEB. Fiscal sustainability provides the City's residents, business owners, taxpayers and visitors confidence in the City's ability to provide high quality life both today and in the future. It is recommended, however, as MOUs have been approved in good faith, that any changes to the OPEB benefit levels do not affect our current city retiree population, and that the city continue to fulfill the level of benefits currently provided.

RECOMMENDATIONS

A. <u>Sustainable Fiscal Plan.</u> Develop a sustainable fiscal plan which embodies an effective paradigm shift toward city finances.

1. Achieve and maintain intergenerational equity
2. Update the City's applicable policies that would manage the municipal finances wisely:
    a. Continue to use the collective bargaining mechanism with individual labor groups to control costs while also offering a level of financial compensation and benefits that will attract and retain quality employees
    b. Incorporate flexibility and discretion so not to stifle innovation and creativity
3. Enhanced plan to ensure services are available today and in the future
4. Continue to hold city leaders accountable for using the General Funds efficiently and effectively in an open and honest manner

a. Resident communication should be in a straight forward, simple language to ensure a better explanation of the magnitude of the OPEB debt and its impact, so that it can be more easily understood by the residents and taxpayers

B. Defined Contribution Plans. The City of Vacaville, as well as some other public agencies, have continued to provide defined benefit plans for retirement and healthcare benefits. The private sector moved away from these types of benefit structures toward the end of the 20th century. The costs of Defined Benefit Plans are inherently unpredictable, as these plans focus on the level of benefits provided and there is little control over the cost of the benefits. We recommend that the City of Vacaville transition its OPEB Retiree Health Benefit to a Defined Contribution Plan (DCP). These plans first determine what the City can afford, establish a fixed cost for the budget, and then design the benefit level to coincide with the budgeted expense. The City should investigate incentives for active members to convert to a Defined Contribution Plan with a more robust HSA/HRA separate and/or combined program.

1. Benchmark Data: engage an independent firm to develop realistic benchmarks
    a. Cities of equivalent size, property values, and average family income with Vacaville
2. Comparative analysis should be performed using these equivalent size city's expenses and benefit levels with the City of Vacaville's data
3. Analysis of data should be completed, identifying the successes and challenges of these comparable cities
4. A 2019 revision/supplement of the actuarial report should be developed by Milliman[4] to include actual and projected staff levels, and adjusted to the assumed rate of return based on current economic trends
5. An action plan created with a timeline that should consider:
    a. Integration of the current OPEB Trust with the stated goal of funding it at 100% of the Annual Required Contribution (ARC) – as has been accomplished for the past three fiscal years
    b. Consistently evaluate the performance of the OPEB Trust, and make changes as warranted to ensure the trust achieves its maximum performance potential
    c. Explore creating /expanding Healthcare Reimbursement and/or Healthcare Savings Accounts for active employees, as well as retirees
    d. Consider separate plans for Safety and Non-Safety personnel
        - Perhaps higher level of benefits for the more hazardous safety positions
    e. Explore an opt-out option for retirees who enjoy the benefit of another source of healthcare benefits, such as coverage under a spouse's healthcare plan
    f. Offer employees the option of a cash-out benefit rather than the continued retiree benefits
    g. Explore feasibility of exiting CalPERS in order to provide more varied, potentially less expensive healthcare options for active employees and retirees
    h. Obtain independent quotes from healthcare consultants, including those outlined below, for alternative healthcare financing options, including healthcare

[4] Milliman is a worldwide actuarial consulting firm, expert in quantifying financial risk.

exchanges - Alliant - EPIC Insurance Brokers & Consultants - Keenan and Associates exchanges - Alliant - EPIC Insurance Brokers & Consultants - Keenan and Associates

(*Note: Make sure you understand the difference between brokers who are tied to partners and those that are totally independent, how partners can affect the enumeration for the broker's services, and the cost impact to the city.)*

6. An outside labor negotiator should be consulted, who has experience in working with cities that are making, or have made, a similar paradigm shift, to renegotiate Tiers 1 and 2 so they might be integrated into Tier 3, with fixed dollar contributions by the city and enhanced with HSA/HRA accounts